Despite President Bush’s campaign rhetoric about an “Ownership Society” and his inaugural address calling for more people to own businesses, the President’s Advisory Panel on Tax Reform has effectively recommended the elimination of ESOPs.

Should the Tax Panel’s current recommendation to eliminate all defined contribution plans become law, it would mean the end of ESOPs and of most employee ownership, since only a few companies are employee owned through direct stock ownership or cooperatives.

The recommendation has received a mixed reaction from members of the ESOP community. Some are not very concerned since ESOPs are not specifically mentioned, and it may be simply an oversight that ESOPs were caught up with other defined contribution plans. Some are not alarmed because the recommendation is a general overview, and there may be provisions for ESOPs when the details are developed. Furthermore, some believe the Panel’s proposal has little chance of becoming law.

Others, however, are alarmed because the farther the Tax Panel’s proposal moves toward passage into law, the more difficult it will be to change. They read the Panel’s failure to mention ESOPs more darkly, as sign of the intention to eliminate ESOPs. Therefore, they believe the ESOP community should act now.

After several representatives of The ESOP Association met with the top tax official at the Department of Treasury, Association President Michael Keeling issued an ESOP Association bulletin, noting that “Treasury has made no decision what to recommend to President Bush on retirement savings and ESOPs” and that “The ESOP community’s voice has not been heard at Treasury.”

Keeling stated, “If Congress gets the Commission’s recommendation on defined contribution plans, the ESOP community will have to make a massive effort to defeat the proposal.” He called for members of the ESOP community to “protest the Commission’s report recommendation. … Let us stop it at Treasury.”

For those interested in writing to Treasury Secretary John Snow or contacting their Senators and Representatives, The ESOP Association has drafted sample letters in the government affairs section of its website, www.esopassociation.org.

First Use of 1042 Rollover with a Co-op at Select Machine

On September 30, the seven employees of Select Machine in Brimfield, Ohio, began to purchase their company from its two retiring owners, Doug Beavers and Bill Sagaser. The purchase used a precedent-setting structure that permits the sellers to take advantage of the “1042 rollover” of their capital gains while structuring the sale over a period of several years, making it easy to finance and enabling a transfer of managerial expertise to the other co-op members over time.

Back in 1984, tax law created the so-called “1042 rollover,” permitting owners of closely held businesses who sell 30% or more of the stock in their company to their employees through an Employee Stock Ownership Plan (ESOP) or a co-operative to shelter the capital gains from taxes by rolling the proceeds into other qualified domestic securities within 12 months of the sale.

Today the 1042 rollover is the number one reason for establishing ESOPs, but in the twenty-one years since its passage not one employee co-op had been established using this provision until Select Machine. Why not? The primary reason is that ESOPs’ stock structure enables owners to sell part of their companies to employees, while retaining enough equity to make financing easy and retain control during the crucial first years of employee ownership. Financing a 100% leveraged transaction is extraordinarily difficult, especially if the owners are leaving and taking their management skills with them.

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The typical 1042 rollover ESOP is done as a 2 or 3 stage transaction over a 5-10 year period.

Comparing ESOPs and Co-ops

ESOPs have tax advantages that make them the preferred employee ownership structure in profitable, capital intensive companies with more than 20-25 employees. Because ESOPs are federally regulated qualified employee benefit plans, the costs of establishing them ($50,000 and up) and maintaining them ($10-15,000 annually) make them unduly expensive in smaller or less profitable companies.

By contrast, employee co-ops are 100% member-owned associations similar to agricultural co-ops and consumer co-ops. They typically distribute their profits to members on the basis of labor input measured by W-2 earnings or hours worked, similar to the way ESOP stock is allocated. Unlike ESOPs, however, co-op members elect a majority of the board on a one-person, one-vote basis. Co-ops have fewer tax advantages than ESOPs, but they are less expensive to set up and even cheaper to maintain, making them a better solution in smaller companies.

Co-op Business Succession Model

What was needed for ownership succession purchases by co-ops was a way to make the purchase in several stages. A practical model was developed for the employee cooperative with the financial support of the George and Gladys Dunlap Cooperative Leadership Program of the Nationwide Foundation, the Ohio Employee Ownership Center and the Ohio Council of Cooperatives (now part of the Mid-America Cooperative Council).

Mark Stewart, one of the nation’s leading co-op attorneys, and ESOP specialist Eric Britton at the Toledo, Ohio, law firm of Shumaker, Loop and Kendrick, were hired to develop the legal framework for the conversion from company to cooperative.

The model that Stewart and Britton designed calls for converting the company into a co-op which then redeems the retiring owners’ stock in several steps, with a valuation at each step. The owners qualify for a tax free rollover of the proceeds provided the co-op redeems at least 30% of the owner’s stock. The owners’ remaining equity makes the deal easier to finance, and the owners’ continuing involvement for several years enables them to transfer their knowl-

edge and skills.

This model has two distinct financial advantages for the selling owners. First, they obtain the control premium on the first stock redemption, because they are yielding control to the co-op. A co-op by definition must be controlled by its members. Second, the retiring owners can be members of the new co-op as long as they are working, receiving annual internal capital allocations. But the selling owners have to be comfortable with a board elected on a one-member, one-vote basis and with the more democratic nature of the co-op.

Why Sell Select Machine to the Employees?

Select Machine was founded in 1994 by Doug Beavers and Bill Sagaser, and today it employs nine people full-time, including the two owners. The company manufactures, sells and distributes machined products and equipment for installation on construction and demolition equipment. “Bill and I set up this company to be the kind of company that we would like to work for,” is the way Beavers describes the owners’ philosophy. Illustrative of the workplace practices at Select Machine is that Bill and Doug serve everyone lunch on Friday at 2 and send everyone home to have Friday afternoon with their kids. “Best place I have ever worked!” is the opinion freely offered by several of the machinists.

“What impressed me most about this group is their desire to create community within the business,” says Attorney Stewart. “In a co-op, you need a concern for each other’s welfare, just like partners have. They have that at Select Machine.”

Beavers and Sagaser had sought to sell their profitable business for months before offering it to the employees. Several interested potential buyers surfaced, but all of them wanted to buy the business for its customer list, cherry-pick the equipment, and consoli-date production into underutilized facilities elsewhere. Shutting the plant and leaving their employees out of work was not why Beavers and Sagaser had built the business. Why not sell to their employees instead? They turned to the Ohio Employee Ownership Center for advice.

From the initial telephone discussion to completion, the deal took 6 months, with the employees voting to investigate setting up a co-op and electing a buyout committee.

Since jobs were threatened if the employees didn’t buy the plant, a preliminary feasibility assessment of the employee pur-

The Ohio Employee Ownership Center (OEOC) is a university-based program which provides information and technical assistance to retiring owners, buyout committees, labor unions, managers and community-development organizations interested in exploring employee ownership. Center staff can help locate competent and appropriate legal and financial advisors, and perform initial assessments to determine whether employee ownership is a viable option. The OEOC develops resource materials on employee ownership and participation systems, sponsors workshops and conferences for the general public, develops and delivers training programs for employee owners, facilitates cooperation among employee-owned firms, coordinates a comprehensive succession planning program, and assists international efforts to privatize businesses through employee ownership.

The OEOC is funded by grants from the Ohio Department of Development’s Office of Labor-Management Cooperation, the Ohio Department of Job and Family Services, the Nationwide Foundation, the Ford Foundation, and the United States Department of Labor as well as contributions from Kent State University, Friends of the Center, and the companies that comprise Ohio’s Employee-Owned Network.

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Doing the Deal

With a favorable feasibility study in hand and a local bank and a revolving loan fund willing to finance the redemption of 40% of the owners’ stock, Attorney Mark Stewart prepared an offering statement for the employees. It describes the company, the proposed transaction, the intent of the owners to sell their remaining stock to the co-op, how the co-op will redeem the owners’ stock, how the company will be managed, the various legal documents necessary to establish the co-op and complete the transaction, and the risks involved. It is not a Securities and Exchange Commission disclosure statement, but it performs the same role in informing the potential co-op members about what they may buy and the risks involved in doing so.

After reviewing the offering statement, the feasibility study and valuation, and the financial statements of the company, the employees voted to go ahead. They discussed and decided the structure of the cooperative, including qualifications for membership, membership fees, and how to allocate patronage.

They set the co-op membership fee at $1000. Patronage allocations are distributed on the basis of a formula that assigns 50% to W-2 earnings (rewarding current market value of their skills), 25% to hours worked (rewarding diligence and equality), and 25% to seniority capped at 120 months (long-term contribution to the business).

With the decision to proceed, preparing the documents swung into high gear because everything else has to happen almost simultaneously.

The articles of incorporation of Select Machine were amended and restated to establish the firm as a cooperative under Ohio Cooperative Law. New bylaws for the cooperative were written to replace existing bylaws of the company.

Select Machine cooperative members elected a board of five including three employee members and the two selling owners—who became members of the co-op.

The new board voted to authorize the stock redemption and to borrow the money to fund it.

The documents for the transaction were prepared: the stock redemption agreement which establishes the terms and conditions for redeeming the stock from the original owners; membership and stock subscription agreements for the new co-op members; the business plan; employment agreements for the co-op members; and the owners’ employment agreement which provides them certain reserved rights as “protected shareholders” until their stock is redeemed.

Beavers and Sagaser sold 40% of their shares in this transaction and also became members of the co-op. They put up a portion of their unredeemed stock holdings as their membership stock, equivalent to the average membership stock the other members hold.

While the patronage capital allocations for other members will go to pay down the note used to acquire their stock, the owners will receive their patronage allocations, since they already own their membership stock. They will build their capital accounts within the co-op, but will not acquire additional stock in the process.

Beavers and Sagaser intend to sell the remaining 60% of their shares as soon as the debt to purchase the 40% has been repaid. They then intend to retire from the business. In the meantime, they will train the other co-op members to run the business successfully. The OEOC’s Interim Director Bill McIntyre drafted the business plan to clarify what skills and knowledge are required.

National implications

“The structure of an employee co-op and its tax advantages under Section 1042 of the tax code are relatively obscure for business owners,” says Stewart, “but once we have viable models, we will have a lot more co-ops set up for business succession.”

The model pioneered at Select Machine could be transferable to many companies with fewer than 25 employees. It offers an attractive alternative to owners of companies that are too small for the ESOP option and do not have family members available to take over the business. The stock redemption model permits selling owners to shelter their capital gains, get a better price than they otherwise would, and see their business legacy continue.

How has it worked so far?

Dave Baird, a machinist who has been with the company for six years and is the co-op vice-chairman, was contacted a month after the co-op was established to get an update on where things stand.

“It’s all good. Everyone is real excited to make this thing happen. We felt good about working here before, but everyone is more enthusiastic now. I was talking to one of the younger guys yesterday on this. ’I just see the company differently now,’ is what he told me.”

“This co-op’s an honor,” Baird continued. “It’s a challenge that I look forward to every day.”

“We did not set out to establish a precedent or develop a model,” says seller and new co-op member Beavers. “We just wanted to do what was best for the employees of our company and for ourselves. We chose the employee-owned cooperative because it made sense.”

The Commonwealth Revolving Loan Fund, administered by the Ohio Employee Ownership Center, made an $80,000 subordinate loan to help Select Machine. CVRLF also made a loan for working capital to La Fuente, a garment cooperative established by the Ursuline Sisters of the Diocese of Youngstown.
Economics, Cooperation, and Employee Ownership: The Emilia-Romagna Model

John Logue

Editor’s Note: This account of a visit to cooperatives in the Italian region of Emilia Romagna shows how public policy combined with individual effort to create prosperity in a poor region. Are there lessons for Northeast Ohio? Read on!

There are two European models for employee ownership that demand American attention. The one is the Mondragon cooperative group in the Basque region of Spain which has been frequently discussed (see Owners at Work XII:1 and XIII:1). The other is the much less well known complex of employee-owned companies in the Emilia Romagna region in Northern Italy around Bologna.

In some ways, Emilia Romagna and the Basque co-ops are very different. In the Basque region, the Mondragon employee cooperatives grew out of Catholic social teaching and Basque nationalism in the 1950s and 1960s. In Emilia Romagna, by contrast, the co-ops grew up with the 19th century labor movement but in the 20th century split into three different partisan political federations. They have no link to ethnic or linguistic minorities.

In other ways, they are very similar. Both appear to owe their success today to a combination of small scale, flexible employee-owned firms which achieve economies of scale to compete globally through collaborative research and development strategies, cooperative export efforts, their own financial institutions, and other forms of collaboration and cooperation that are largely or completely missing in the employee-owned sector in the US.

There’s a great deal to be learned from what this one small region in Northern Italy has achieved over the last fifty years.

Promotion of small business

Emilia Romagna is roughly comparable to Northeast Ohio in population: 3.9 million vs. 3.8 million. But unlike Northeast Ohio, it has its own regional government – one of 20 in Italy.

By Ohio standards, firms are very small scale. Emilia Romagna has 420,000 firms – one for every 9 men, women and children – vs. 110,000 in Northeastern Ohio. More than half the population are co-op members. Co-ops -- including employee-owned businesses -- employ 10% of the workforce and generate about 30% of the GDP in the region and up to 60% of the GDP in some cities like Imola, according to University of Bologna economist Stefano Zamagni. Flavio del Bono, the regional finance minister, tells foreign visitors point blank that “the massive presence of cooperative firms is a stabilizing factor in the regional economy.”

“Emilia Romagna has 7% of the population of Italy,” says del Bono. “But we account for 9% of the Italian GDP, 12% of Italy’s exports, and 30% of Italy’s patents.” Unemployment is an enviable 3%.

It wasn’t always this way. Emilia Romagna moved from among the poorest of Italy’s industrial regions in 1950 to the richest in 2005. Today it’s among the 10 richest of the European Union’s 122 regions.

After the war it became part of Italy’s so-called “Red Belt,” the part of Italy where Communists and Socialists won elections. The CIA poured money into the region to split the labor and co-operative movements. But lacking the large-scale industrial base of a Milan or a Turin, a funny thing happened: the left-wing government in Emilia Romagna embarked on a strategy of promoting small business for economic development.

At the core of the Emilia Romagna success story is the regional government’s focus on supporting small businesses – employee-owned and family-owned alike. Crucially, it encouraged the development of cooperative institutions for all small businesses to achieve economies of scale through “industrial sector service centers.” They provide shared services in research and development, purchasing, education and training, workplace safety, technology transfer, marketing, distribution, exporting and more for hundreds of small businesses in industrial sectors like ceramics, textiles, footwear, construction, and agricultural machinery.

These service centers combine economies of scale with the advantages and flexibility of small business. They have encouraged the region’s famous “flexible manufacturing,” in which small businesses in the same industry collaborate in joint bids for major contracts. Some very high value-added producers, companies like Ferrari, Lamborghini, Maserati, and Ducati, use the networks of small business suppliers.

This general framework of activist government support for small business forms the policy context for the employee ownership.

The legal framework

Employee-owned companies in Italy fall under the general cooperative law that covers agricultural cooperatives, fishing co-ops, housing co-ops, consumer co-ops, and credit unions as well as employee-owned businesses.

With the restoration of democracy in Italy after World War II, parliament gave formal recognition to the role of cooperatives. Article 45 of the Italian Constitution (1947) states: “The Republic recognizes the social function of cooperation characterized by mutual aid and not private profit. The law promotes and favors the growth of these structures using the most appropriate means and guarantees that their character and purpose will be inspected accordingly.”

Italy’s basic co-op law, the Basevi Law of 1947, fleshed out
this constitutional recognition. It provided co-ops with special tax treatment to encourage their self-capitalization by creating the concept of “indivisible reserves” for the benefit of all (i.e., future generations of employees and the community). Earnings can be contributed to indivisible reserves tax free (saving 40% in taxes), but if the co-op is dissolved or sold, its reserves by law go to another cooperative or to a cooperative federation, rather than being distributed among the members. Members receive their individual returns in annual interest payments on their membership fees and in patronage dividends.

Curiously, the law extends the same advantages to co-ops in which all employees are members and those in which only a minority of employees are members provided members own 100% of the business. As a consequence, some employee co-ops have relatively few employees as members.

Cooperatives provide for members’ control through an annual meeting that reviews financial results, approves the budget, and makes decisions on distributions; and through an election of the board every third year.

There have been three major changes in co-op laws since 1947.

In 1991, “social cooperatives” were formally recognized with special goals and special tax advantages. Those are discussed below.

In 1992, co-op law was changed to require all cooperatives to contribute 3% of their profits to co-op development funds run by the three federations of cooperatives. These funds, discussed below, are earmarked for starting new cooperatives or growing existing cooperatives.

In 2001, the right-wing Berlusconi government in Rome staged a frontal legislative assault on the co-ops which all the co-op federations fought. The result was a compromise: tax advantages were reduced and scaled to the proportion of employees or consumers who belonged as members. Not surprisingly, this has encouraged employee co-ops to enroll at least 50% of their employees as members.

In the last fifteen years, co-ops of all sorts have doubled their importance in the Italian economy. Today 121 of the 1400 largest Italian firms are cooperatives (9%, up from 4%), and employment in co-ops has doubled from one-half million to 1 million.

Employee cooperatives

The traditional employee-owned cooperative in Emilia-Romagna is the artisan-style production cooperative that has grown into a significant business. The oldest we visited was set up in 1874; the newest was from the 1980s.

These employee co-ops have succeeded first in the local or regional market, then the national, and now the global market largely because of their focus on competitiveness and innovation. As in American employee-owned firms, competitiveness frequently stems from a niche – varying from short runs and quick set up at Zappettificio Muzzi, an agricultural implement part producer, to design and quality excellence at Cooperativa Ceramiche d’Imola, Italy’s 5th largest ceramics company, to technological leadership at Società Cooperative Bilanciai, one of Europe’s leading scale producers, which plows a remarkable 7% of revenues back into R & D in an otherwise mature industry. Occasionally, the competitive strategy is one of size and economies of scale, as it is for some of the Italian consumer co-ops like Coopitalia, Italy’s largest retailer; this is also the strategy of employee-owned CIR Foods, the country’s third largest food service provider.

Employee ownership is itself seen as a competitive advantage. “The gift of the cooperative is to create a sense of collective entrepreneurship. Membership requires thinking about the business. Workers are more committed than in private firms,” says Stefano Bolognesi, CEO of Cooperativa Ceramiche d’Imola. “If that weren’t true, I wouldn’t have accepted the presidency.”

In addition to the legally required annual membership meeting to review the annual financial report and budget, the co-ops we visited had quarterly or monthly membership meetings, and one co-op held small group meetings to review the financial report and budget before the membership meeting.

Requirements for membership vary tremendously: from six months’ service and a $3000 membership fee to five years’ service and a $112,000 membership fee. Not surprisingly, the proportion of employees who are members varies as well – from 172 members of 1350 employees at Cooperativa Ceramiche d’Imola to 230 of 265 at Bilanciai.

While Italian co-op experts describe employee co-ops as being “by definition undercapitalized,” their tax-free “indivisible reserves” can build over time into substantial permanent equity that dwarfs membership fees. Bilanciai, which became a co-op in 1963, for instance, has membership accounts of $1 million and indivisible reserves of $12 million. The indivisible reserves are universally seen as an advantage.

“Part of our mission is intergenerational mutuality. What we see here is the fruit of generations of work,” says Cooperativa Ceramiche’s Bolognesi, a third generation co-op member. “We receive wealth from past generations (his co-op was set up in 1874), and we create it for future generations of members. Our objective isn’t just to generate jobs for this generation but also for future generations.”

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Social cooperatives

The rapid growth in employee ownership in Italy in the last twenty years has been in the social cooperative sector. Like most of the rest of the West, Italy has undergone an extensive debate about the role of government in providing public services. While the rapid Italian recovery and economic growth after World War II was driven by a very large state sector, in recent years Italy has moved farther than most other Western countries in seeking to privatize public services. Unlike most of the rest of the West, however, Italy has done it with cooperatives. In Bologna, depending on whom you talk to, 60-85% of privatized social services are provided by social co-ops. Throughout Italy social co-ops employ 60,000 and account for 13% of social service expenditures. Their purpose: to promote public goals outside the state sector.

There are two basic types of social co-ops. Type A is owned by the employees and provides social services to the usual social clients. Type B is owned by the members and also provides gainful employment for the marginalized, who must comprise at least 30% of members. Type B co-ops are similar to American non-profits which hire the hard-to-employ – handicapped, former substance abusers, etc. The difference is, in the Italian case, that the hard-to-employ have an ownership share in the business. They have additional tax advantages as well.

Social co-ops have low membership fees, typically $1000 or so, and short probationary periods. Wages are typically below wages paid previously to public sector employees to perform the same work – even after patronage dividends are added in.

They are often more political than the traditional employee co-ops. The strongest ideological motivation we heard was at Cadiai, a Type A, 800 employee (including 420 members) diversified social care provider of home care, child care, residential care, and nursing home care services to 4,000. Cadiai’s goals are to “improve and ensure the quality of personal care, and affirm the professional content and social value of care workers.” Its founders specifically sought to legalize their grey-market jobs, supported women’s rights including divorce, were strongly anti-clerical, and were overtly “red” in their politics.

Similarly a Type A research cooperative, Centro di Ricerca sul Cancro (Center for Research on Cancer), which is incongruously located in a 16th century castle, did pathbreaking work on the industrial carcinogen benzine forty years ago. Now its researchers – 35 employee members – are analyzing the impact of electromagnetic fields and cell phones on health.

“You can wish to have a better world, but it’s hard to build one,” says CRC scientific director Dr. Morando Soffritti. “Our cooperative form gives us real freedom as a research institute: it allows us to be genuinely independent, to research freely and to speak freely.”

The Type B co-op we visited was Giovani Rilegatori, a co-op print shop, set up in the early 1980s to do printing for other co-ops, and transformed in the 1990s into a Type B social coop. In addition to professional printing of co-op annual reports, it provides work for the handicapped by taking in low skill, labor-
intensive print work and by adding light assembly work. While we visited, several severely handicapped workers were putting together seat adjustment levers for Alfa Romeo. This co-op has 17 working members, 45% in the disadvantaged category. It recently moved to a modern industrial park, its building purchased with a 50 year, 2% interest loan from Imola’s local co-op development fund.

It’s hard to beat – if you believe in an ownership society for those who otherwise are left out of ownership.

Achieving economies of scale

Unlike the United States where the traditional cooperatives are completely separate from the employee-owned sector, in Italy the agricultural, financial, and consumer co-ops and the employee-owned companies are organized in the same associations. There are three main federations: the left-wing Legacoop, which is the largest group; the significant Catholic Confcoop; and a far smaller Republican/Social Democratic group. While the political labels still have some residual meaning, they have lost their Cold War importance, and some of the co-ops belong to both the left-wing and the Catholic federations.

Each federation brings together employee-owned, consumer-owned, and agricultural producer-owned firms. This unity across sectoral lines has been useful for building second-tier cooperative structures.

The secondary co-ops or “cooperation among co-ops” are a strength of the Italian co-ops Like the Mondragon co-ops in Spain, they have set up financial institutions; insurance companies; and joint training, research, and development centers.

Co-op federation services. The three main cooperative operations provide many services to their members. The Legacoop, for example, provides tax preparation, accounting, payroll and legal services; training and development; occupational health and safety consulting; collective bargaining; waste disposal; and lending and equity investment from its development fund. It also charges a hefty 0.4% of sales for membership.

Because the Federations have regional, provincial and often even municipal associations, services are provided locally and controlled locally.

Financial services. We visited Unipol, the insurance company, which was set up in 1963 by a group of Bologna co-ops to insure their members. Today it is Italy’s 3rd largest insurance company, and a major source of investment in the cooperative sector through the placement of its reserves there. It took over a small co-op bank in 1998 and grew from 9 branches to 273 branches today, and in 2003 it set up a merchant bank.

Collaboration on specific projects. Employee cooperatives collaborate extensively on specific business projects. Thus, for example, CADIAI is partnering with CIR, the food service co-op, and several other co-ops to build day care centers – managed by CADIAI with food provided by CIR. And CIR is backing the opening of Colors, the co-op restaurant set up by the employee survivors of Windows on the World in the World Trade Center.

Co-op development funds. Since 1992, 3% of co-op profits have been allocated to cooperative development funds to finance starting new cooperatives, conversion of existing businesses to co-ops, and the expansion of current cooperatives. Each of the three big co-op association has its own fund.

We visited with the management of Legacoop’s fund – Coopfond. As of 2004, it had raised about $290 million and had invested about $340 million. Additionally, Coopfond has 14 regional funds. The other two national cooperative associations have smaller funds. Unaffiliated coops’ contributions go into a government fund for the same purpose.

Between 1994 and 2001, Coopfond supported 109 co-op start ups with $48 million in equity and $17 million in loans leveraging $288 million in investment and creating 4640 new jobs. It also supported 82 expansion projects with $53 million in loans, leveraging $370 million in co-op investments and creating 2690 new jobs. That’s not a bad record.

Challenges

Emilia Romagna faces the same challenges of globalization that the rest of us do. It has to compete against low income producers in Asia. “We have to play the quality game, innovating in products and processes,” says regional finance minister,

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Emilia-Romagna (Continued from page 7)

Flavio del Bono, who was elected on the “Daisy slate,” a center-left Christian Democratic group, which is part of the leftist coalition government of the region.

“We can’t compete in every area, and we certainly can’t compete on price with the Chinese. But we can sell to the top 3% of Chinese consumers who have an income at the Italian level,” says del Bono. “That’s 30-40 million people. We can compete in ceramics, for example, and that’s why we’ve opened an office in China to help our firms export.” Again it’s an example of the way the regional government helps small firms achieve economies of scale.

While del Bono is reasonably sanguine about the ability of local firms to compete internationally, he is concerned that “foreign firms investing in Emilia Romagna have apparently reduced innovation.” This is a major concern because the region’s competitiveness in a global economy depends on continued innovation reflected in its extraordinary record in patents (30% of Italy’s patents for 7% of its population). Employee cooperatives provide an edge: “Co-ops are tough for foreign firms to purchase,” he says, since their “indivisible reserves” automatically revert to the various co-op development funds.

Partly to stay on the cutting edge of innovation, the regional government is providing a fiber-optic backbone for the entire region.

Internally, employee co-ops focus on a different set of challenges. A major one is inclusion of foreign workers. Italy is awash in foreign workers from Eastern Europe, the Balkans and North Africa. Many are illegal. They also make up an increasing portion of co-op employment: 10% at CADIAI, for example, up from none three years ago. But they lack the co-op tradition. Though immigrants make up 30% of workers at the agricultural implement parts co-op we visited, none are members.

A second challenge is making large size compatible with democratic structure. From an American perspective, the Italian co-ops have done well, but it remains an issue of concern, especially in the consumer co-ops which have had to federate to remain competitive.

A third challenge, and perhaps most serious, has been a sea change in values. As Guiliano Poletti, the national president of Legacoop, put it, “We teach children in school about coops, but today’s “get rich quick” values conflict with those that made cooperatives strong.”

What can we learn?

There are a number of lessons for Ohio policy makers and the employee-ownership community in Emilia Romagna that we should take to heart.

Promotion of small business. The regional government’s focus on promoting small and medium-sized enterprises through creating economies of scale for them goes far beyond what we are used to in Ohio. The industrial sector service centers and other regional policies appear to have had a tremendous impact on clustering of businesses, flexible manufacturing, innovation, and exports. Small business organizations, including the various cooperative associations, provide additional services—especially inexpensive professional services—to their members. The consequence: higher wages in the small business sector, more patents and innovation, more employment growth, and more exports.

Access to capital. Much of the strength of the Emilia Romagna model stems from access to large pools dedicated to cooperative development. Consider the insurance company Unipol. Established and controlled by other cooperatives, Unipol has strengthened the cooperative sector through its investment policies, and through its pioneering work in social accounting as well as through underwriting insurance for cooperatives and their members. Or consider the co-op development fund structure which “taxes” otherwise tax-advantaged co-ops to develop new co-ops. It seems to be an effective mechanism to create new co-ops and new jobs. Imagine, if you will, the implications in Ohio if each employee-owned firm paid 3% of its profits into a fund to encourage the development of additional employee-owned firms in the state.

Not least, the Italian co-operatives’ indivisible reserves—which revert to the co-operative development funds at the sale or liquidation of cooperatives—give them a staying power that American cooperatives and employee-owned businesses lack. They pay out part of profits to members, but retain tax-advantaged earnings, which guarantees that the capital created with tax advantages will benefit future generations and the community.

Cross-sectoral collaboration between cooperatives—consumer-owned, agricultural producer-owned, and employee-owned firms—strengthens all three groups, especially through the provision of common services for their members. The cooperative councils at the regional, provincial and municipal levels give co-ops an independent voice in decision making, especially in the privatization of social services.

Imagine, for a moment, a similar model in Ohio. Imagine a state government with a proactive strategy of encouraging the development of small business and creating economies of scale in export, research and development, and provision of professional service through sectoral service centers as a centerpiece for economic development.
A very special restaurant opened in New York in early January. The cooperatively owned Colors restaurant employs 34 workers from Windows on the World, which sat atop the North Tower of the World Trade Center. Its 50 workers have all contributed 100 hours of work and a family recipe toward opening the restaurant.

About half of the $2.2 million startup costs came from Good Italian Foods, a consortium of Italian cooperatives, and New York’s union-supported Restaurant Opportunities Center (ROC-NY). The remainder came from 15 social lenders and foundations.

“We are creating the model employer in the industry,” board member Bruce Herman told OAW. “We had an ergonomist work on equipping the restaurant. You don’t see the division between the front of the house and the kitchen staff that characterizes New York restaurants. But we are also creating a restaurant that can be viable in this very demanding market.”

“It’s a tribute to the 73 who lost their lives at Windows on 9/11,” says co-op member Patricio Valencia, a Windows employee who wasn’t on the fatal shift. “But it’s more than that. It’s a new opportunity for every one of us.”

“Of course we’re looking for a better life, but this is about social justice too,” adds Fernando Hernandez, also a co-op member. “The co-op gives us a way to give something back, to build something for us and for other restaurant workers.”

Colors is located in the East Village at 417 Lafayette Street between Astor Place and East Fourth Street. For reservations, call (212) 777-8443.

The ESOP Association’s 2006-2007 Employee Owner Retreats

The Employee Owner Retreat is a three-day, off-site training seminar, where non-managerial employee owners learn from and interact with their peers from other ESOP companies. In small groups, structured exercises, and informal discussions, employee owners develop new skills and a new perspective on employee ownership at their respective companies. The program includes beginner classes on ESOPs and Financial statements, a slightly more advanced financial class for those already familiar with the vocabulary, and small team problem-solving.

Spanish Track Available

Recognizing that many ESOP participants speak Spanish as a first language, several parts of this program can be run in Spanish by our bilingual staff. Minimum of 10 participants per retreat required.

For questions or more information call:
The OEOC, Karen Thomas/Bill McIntyre/Dan Bell, 330-672-3028
or the ESOP Association, Rosemary Clements, 202-293-2971.
Conference Endorses Economic Fairness Policy

A conference of participants from the Capital Ownership Group (COG), an international network of professionals, academics and activists, has endorsed and engaged to support the concept of Fair Exchange, the idea that citizens should receive an ownership stake in businesses that are given tax breaks in exchange for moving or keeping their business in a particular political jurisdiction. The idea was aired in COG's first online discussion groups in 1998-99.

Fair Exchange seeks to deal with the disruptive impacts of globalization by establishing national and international policy that businesses and corporations should provide equity share ownership in return for government concessions, subsidies or tax breaks. The equity, belonging to all citizens in a political community, would be managed by a community trust. Even if businesses that received tax breaks or other benefits left the community without fulfilling their original bargain (for jobs, tax payments or investments), communities would still hold some real benefit (shares of company stock) for their sacrifices.

There are precedents for Fair Exchange: The idea of equity for tax concessions resembles requirements in the airline and Chrysler bailout laws.

The Fair Exchange project is funded by the Alfred P. Sloan Foundation and is doing research and development of model legislation intended to:

- Deter government units from competing with each other for corporate location by means that undermine their local economies.
- Build a diverse stock portfolio for every citizen over a generation.
- Create a source of non-wage income and a vote in corporate decisions from a diverse citizenry.
- Create means for the new corporate citizenry to collectively exercise their concerns by voting their stock in elections for boards of directors.
- Broadly distribute “meaningful ownership” among citizens by means similar to the Alaska Permanent Fund, the Canadian Labor-Sponsored Investment Funds, and the Homestead Acts.
- Provide necessary financing to stabilize local economies.

...businesses and corporations should provide equity share ownership in return for government concessions...


The conference of leaders in government, business, labor and academia convened on October 7, 2005 at the Fair Exchange Conference on Growing, Governing and Protecting Community Assets, hosted by the George Washington University Law School in Washington, D.C. Featured speakers included Bill Greider, The Nation; David John, Heritage Foundation; Ron Blackwell, AFL-CIO; Scott Klinger, Responsible Wealth; Mary Pat Clarke, Baltimore City Council; Gar Alperovitz, Democracy Collaborative, Lawrence Mitchell, George Washington University Law School, and Deborah Olson.

According to Olson, “The key question of the Conference was ‘Is Fair Exchange a policy worth pursuing?’ The overwhelming response from the participants was ‘Yes!’” Following a day of discussion, a number of the conference participants volunteered to serve on an advisory board to help move the concept closer to practical realization.

The first political test of the policy may come in Hawaii. At the request of the Marcus Oshior, Majority Leader of Hawaii’s House of Representatives, COG is working on two pieces of legislation that include Fair Exchange elements: 1) a new form of corporation that includes employee and community stakeholders in its governance and gets tax breaks for doing so; and 2) a new corporate trust enabling inventors, unions or employees and the state to use intellectual property rights as negotiating leverage to improve labor and environmental standards and protect jobs. Says Olson, “Many companies incorporate in Delaware because of its laws favoring corporations. Hawaii is aiming to be a state where socially responsible companies will especially want to incorporate.”


Founded in 1997, COG operates an on-line conference center, think tank and library from Kent State University and promotes broad ownership as a way to abate some of the negative effects of globalization.

COG has 20 working groups with 600 participants from 6 continents and has responded to over 5.3 million information requests from people in 173 countries. Since 1999, COG has received funding from a number of organizations including the Ford Foundation, the German Marshall Fund of the U.S., the Sloan Foundation, the European Union Fund, the Carey Center for Democratic Capitalism, and others.

For more information on COG, visit http://www.capitalownership.org. OAW
A Lesson for ESOP Trustees: Document, Document, Document

Bill McIntyre

A 2005 decision by the US Court of Appeals (7th Circuit) demonstrates how ESOP fiduciaries can live up to required standards of prudence and good faith with reasonable efforts. More importantly, Keach v. US Trust (decided August 17, 2005), shows that a downturn in stock value does not necessarily mean that the ESOP trustee breached its duties. The decision affirmed the District Court ruling in favor of the trustee for satisfactory due diligence and documentation of the process.

Here are the facts of the case: Foster & Gallagher, Inc. (F&G) was a direct mail company engaged in the marketing of gifts, housewares and novelty items. Its largest subsidiary, Michigan Bulb Company (MBC) received most of its income through sweepstakes-type promotions.

The F&G ESOP began in 1988 when it purchased about 30% of F&G’s stock from the company’s founders. On December 20, 1995, the ESOP, with US Trust Company, N.A. (US Trust) acting as its trustee, purchased an additional $70 million of stock from several F&G officers and directors at a price of $19.50 per share. F&G enjoyed record business in 1996 and 1997; however, in 1998, its profits began to decline, largely because of investigations and negative publicity about the sweepstakes industry. F&G ultimately declared bankruptcy in 2001.

ESOP participants Debra Keach and Patricia Sage sued US Trust and others in 2001, after F&G’s share value declined to less than half of the $19.50 purchase price. They claimed that US Trust had breached its fiduciary responsibility by paying too much for the stock and failing to conduct an adequate investigation of the purchase.

The court noted that under Section 3(18) of ERISA, US Trust had the burden to prove: (1) that the ESOP paid no more than fair market value for the stock, and (2) that the value was determined in good faith by the trustee.

F&G had retained an established, well-known ESOP valuation firm (Advisor A) as its financial advisor to help structure the transaction. Advisor A proposed a sale price of $24 per share.

US Trust did not blindly accept Advisor A’s valuation. It engaged another established, well-known ESOP valuation firm (Advisor B) to assist it.

US Trust and Advisor B representatives met with F&G executives, toured MBC’s facilities, met with additional members of MBC’s management, reviewed F&G’s business plans, and examined F&G’s financial statements. Advisor B performed an in-depth analysis of F&G’s financials. Based on that analysis, US Trust determined that Advisor A’s analysis was too optimistic, and, with Advisor B’s assistance, developed its own independent valuation. After extensive negotiations, US Trust and F&G agreed on $19.50 per share. Through its due diligence, US Trust negotiated a 20% reduction in the price.

The court found US Trust had conducted a careful and prudent financial investigation. The court noted that US Trust and Advisor B went to considerable lengths to understand F&G’s business and successfully negotiated the lower price.

US Trust also hired an established law firm to perform legal due diligence regarding the transaction. However, the court was not pleased with that investigation, which was conducted primarily by a first-year associate who asked general questions but did not follow up on state inquiries or government regulation of the sweepstakes business. Most significantly, the court noted with disapproval the absence of documentation from the legal investigation and, in particular, the absence of documentation of communications between the legal advisor and US Trust concerning MBC’s sweepstakes issues.

Despite being “troubled” by the legal due diligence, the court concluded that ERISA’s fiduciary duty of care “requires prudence, not prescience,” and that “it cannot be said that the overall investigation was imprudent or in bad faith.” The court concluded that matters overlooked in the investigation could have reasonably been viewed as not material at the time of the transaction.

However, the court had words of warning for counsel to ESOP fiduciaries. It explicitly rejected the industry custom not to have a formal written report on the results of corporate legal due diligence. It advised, “every aspect of the legal due diligence must be meticulously documented,” for two reasons: (1) so that the trustee has clear unambiguous advice upon which to base an informed decision; and (2) so that there is a clear and unambiguous written record in existence by which to later test the appropriateness of the trustee’s decision making process if that becomes necessary.”

To summarize the lessons to be learned from the court’s decision, ESOP trustees, as well as their counsel and advisors, should follow a procedure of due diligence and thoroughly document the procedure, discussions, and decisions. In short, document, document, document.

This article was reviewed by Ben Wells, ESOP attorney in the Cincinnati, OH, office of the law firm of Dinsmore & Shohl, LLP. However, nothing in this article should be construed to be legal advice or opinion. For answers to specific questions, consult your ESOP professional. OAW

Is your company employee-owned?
It pays to be a member of Ohio’s Employee-Owned Network!
See page 16 for details
Ohio Employee Ownership Conference

Employee Ownership: Creating Companies Worth Keeping

20th Annual Ohio Employee Ownership Conference

Conference Topics Will Include:

- Great Places to Work: Sharing Employee Ownership Successes
- ESOP Communication Using Creativity, Not Cash
- ABCs of ESOPs for Employee Owners
- 20 Misconceptions re Fiduciary Responsibility & Liability
- ESOP Account Distribution Alternatives, Issues, and Implications
- Selling to Your Employees: The ABC's of ESOPs and Co-ops
- Creating Companies Worth Keeping
- Covering the Distance: ESOP Communication with Electronic Media
- Best Practices in Governing and Managing the Employee Ownership Way
- Building Your ESOP Retirement Account: ABCs of Eligibility, Participant Statements and Stock Valuation
- ESOP Trustees: Current Issues & Legal Update
- The Repurchase Obligation and its Impact on Valuation, Cash Flow, and Strategic Planning
- Employee-Driven Buyouts Using ESOPs
- Step-by-Step Process for Selling Your Business to Your Employees
- Communicating Business Performance in Non-Technical Terms
- Beyond the Buzzwords: High Performance ESOPs
- Receiving Your ESOP Retirement Benefit: ABCs of Diversification, Distribution and Repurchase Obligation
- Using ESOPs for Mergers and Acquisitions
- Complying with S-Corp Anti-Abuse Rules
- Employee Buyouts of Small Companies Using a Co-op
- Lights, Camera, Action: Filming Your ESOP Story
- Receiving Your ESOP Retirement Benefit: ABCs of Diversification, Distribution and Repurchase Obligation
- Using ESOPs for Mergers and Acquisitions
- Complying with S-Corp Anti-Abuse Rules
- Employee Buyouts of Small Companies Using a Co-op
- Lights, Camera, Action: Filming Your ESOP Story

Come Celebrate Our 20th Anniversary Conference With Us!
Ohio’s Employee-Owned Network News

**ComDoc Employee-Owners Celebrate 50th Anniversary with Community Service**

The 475 employee owners of ComDoc, a copier/fax/printer sales and service firm headquartered in Green, OH celebrated 50 years in business during 2005 with a celebration-through-service in the communities that ComDoc serves. “This was a year-long endeavor to increase our understanding of others, in the U.S. and globally,” explained Andrea Capuano, HR Director. “We rose to the challenges of 2005 and stand stronger because of our efforts to help so many.”

A group of ComDoc employee-owners in Akron made beds at an area homeless shelter, and ComDoc employees in New York served meals at the Syracuse Rescue Mission. Others organized fund-raising for local foodbanks, tsunami relief, Katrina relief, holiday gifts for GIs overseas and their families at home, children’s health and literacy, Life Banc, and other charities and social service programs, including a high school leadership program. Other associates organized employee education programs on wellness issues, family caregiving, and photography. One big fund-raiser was sales of ComDoc’s *Cookin’ That Can’t Be Copied* cookbook.

The celebration culminated with a “Trip Down Memory Lane” party at company headquarters in October, with similar customer appreciation events in all other locations. ComDoc’s corporate employee-owners, depicting the dress of the 50s, 60s, 70s, 80s and 90s, offered food and entertainment to welcome families and guests.

ComDoc has grown over the past 50 years from four employees to almost 500. Walter Griffith and his wife Eleanor started the business in 1955, selling thermo fax units from a small office and warehouse location in Akron. Additional offices and product lines were added over the years. The ESOP was established in 1985 when Griffith handed leadership of the company to a new management team. Griffith’s son-in-law Riley Lochridge became Chairman and CEO in 1987.

Today ComDoc is a principal supplier of Ricoh office products and the largest independent Ricoh dealer in North America with 10 sales offices and three distribution centers in Ohio, West Virginia, Pennsylvania and New York. Sales have grown from $12 million in 1983 to more than $100 million in 2005. Share price has grown from $8.26 in 1984 to $163 in 2004. Over the next few years, the percentage of ESOP ownership is anticipated to grow beyond the current 42%.

“We benefit from our ESOP,” explained Capuano. “The biggest benefit is our culture. There’s no hierarchy and people appreciate this.”

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**Employee Involvement Hard-Wired at Paul J. Ford and Company**

Since the ESOP was established in 1994, employee involvement has been carefully designed and built by the Board of Directors at Paul J. Ford & Company, a 36% employee-owned structural engineering design firm headquartered in Columbus. The firm has 55 owner-employees specializing in commercial, institutional, and industrial buildings, including hospitals and communications structures. It recently hosted an ESOP Communication Forum highlighting its communication processes.

The Board created a six-member Advisory Council nine years ago to mentor younger employees into leadership at the firm; to provide an informal network for employees’ questions and input; and to involve employees in business decisions.

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Highlights from ComDoc’s 50th Anniversary celebration: (above) ComDoc’s “Pink Ladies” include (clockwise from left) Carolyn Payerle, Andrea Capuano, Judi Adam, and Joyce Swords; (far right) Walt and Eleanor Griffith, founders of ComDoc in 1955, enjoy the “Trip Down Memory Lane” 50th Anniversary celebration which included classic cycles of the 1950s through today; (right) ComDoc’s 50th anniversary logo.
Members of the Advisory Council are selected from the firm's engineers with at least three years of service and non-engineering employees with at least four years of service. They serve 3-year terms.

A strategic planning committee that includes members of the Board and the Advisory Council was launched five years ago. The council also oversees the Investment Committee, which is responsible for ESOP administration and includes three company officers and three employees serving three-year terms. The Board recently chartered a new communications committee, called the KSOP Committee, which the Council will also oversee.

The KSOP Committee members, with the plan trustee as an advisor, will provide information about the combined 401(k) and ESOP, explain why the firm has an ESOP, orient new employees to the ESOP, keep all employees informed of changes, respond to employees' questions, organize workshops, and promote committee members' and employees' learning at local and national ESOP meetings. Members, who must be 100% vested in the ESOP, will meet twice yearly. One committee member serves as the liaison to the Advisory Council.

Employees are kept informed through all-company quarterly meetings held after board meetings, with reports on the financials and how the company is doing. Recently the firm brought all employees from Florida and Georgia to Columbus for two days of business meetings.

As Jim Shaffer, VP of Administration, explained, "We credit our company's success to our quality engineering and design work, completing projects on time, and the entrepreneurial spirit of our employee owners. The company's owner-engineers began thinking about eventual ownership transition in 1994. Although their retirement was more than 20 years away, they were concerned about preserving the character of the organization. They concluded that the best way to do that was to create the buyer in ourselves, and to give us the ability to acquire stock by contributing a substantial portion of annual profit to the ESOP. Over the years, the firm's average contribution to the ESOP has been about 10% of salary. That has enabled our ESOP to steadily grow its share of company stock, which will reach just over 50% in April 2006."

The ESOP Fiduciary Hat Rack

Barbara J. Steele, Vice President and Manager, Louisville Trust Company, Louisville, KY, urged attendees at a recent ESOP Administration and Fiduciary Forum in Cincinnati to be mindful of which fiduciary “hat” they are wearing when they perform their responsibilities. The Fiduciary Hat Rack may include hats for member of the board of directors, employer, plan administrator, ESOP participant, investment advisor, investment manager, or ESOP trustee.

Presenters at the session, along with Steele, included Stephen D. Smith of Krieg DeVault LLP on current legal issues for ESOP fiduciaries, and Richard Schlueter of ComStock Valuation Advisors on the ESOP valuator's perspectives on current issues. OAW
Ohio’s Employee-Owned Network
2006 Program of Events

New for 2006!
Great ESOP Workplaces: Sharing Our Successes
February 24, June 22, and October 19
Is your company a great place to work with a positive impact on the community? Join a multi-company dialogue during 2006 to explore the accomplishments of ESOP companies and the impact of employee ownership on company mission, vision, values and goals of sustainability and ethical performance.

New for 2006!
ABCs/ESOP Participant Training
March 9   Columbus
May 24    Cincinnati/Dayton
September 14   Toledo
September 28   Kent
Special sessions to meet the specific educational needs of new, newly vested, and senior ESOP participants who are approaching age 55 diversification and retirement.

Featured topics
ABCs for New Employees: an overview of ESOPs; history and mission of employee ownership; roles and responsibilities within employee-owned firms
ABCs for Newly Vested ESOP Participants: an overview of vesting, allocation, valuation, and how to grow the value of your business, including how to read the annual participant ESOP account statements.
ABCs for Senior ESOP Participants: an overview of age 55 diversification, distribution eligibility and election, procedures for receiving benefits, principles for investment growth, valuation, and ESOP repurchase obligation.
The ESOP Game: introduces the dynamics of business; the risks and rewards of ownership; the roles of employees, shareholders, managers, and directors; and the factors which affect stock value.

CEO and CFO Roundtables
CEO and CFO Networking Dinner
March 14 Brookside CC, Columbus
Hosted by ComDoc, Inc.

CEO and CFO Roundtable
April 20 Akron/Fairlawn Hilton

CEO and CFO Networking Dinner
September 19 Firestone C. C., Akron
Hosted by ComDoc, Inc.

20th Ohio Employee Ownership Conference
Pre-Conference Events
April 20 Akron/Fairlawn
ESOP Communication & HR Roundtable
Boot Camp for ESOP Participants
CEO and CFO Roundtable
Network Dinner
Company Showcase Reception

Ohio Employee Ownership Conference
April 21 Akron/Fairlawn
“Creating Companies Worth Keeping”

ESOP Fiduciary and Administration Forums
An ESOP fiduciary is anyone with discretionary authority or control over management of the ESOP Plan or Plan assets or anyone who provides investment advice for a fee. Typical people who are ESOP fiduciaries are ESOP trustees, ESOP Administrative Committee members and members of the Board of Directors. Formal title is irrelevant. If a person is performing the functions of a fiduciary, then that person is a fiduciary.

ESOP Fiduciary Workshops
May 25   Cincinnati/Dayton
December 6   Kent

ESOP Administration Forum
November 15   Cincinnati/Dayton
December 7   Kent

New for 2006!
Governance in ESOPs
Fall Dates and location TBA
What’s different about governance in an employee-owned company? This program will bring directors of ESOP firms together for sessions on legal and fiduciary responsibilities in an ESOP; best practices in ESOP firm governance; the basics of ESOPs from a taxation, financing, accounting, and cultural context; getting employees’ views heard; building an ownership culture; and strategic planning in an ESOP environment.

For more information on these programs or on Ohio’s Employee-Owned Network, contact Karen Thomas at the OEOC at 330-672-3028 or kthomas@kent.edu
Cleveland Community Hiring Hall Aids Day Laborers

A Cleveland hiring hall for impoverished workers expects this year to more than double its contracts that make temporary jobs into something closer to permanent work.

For many American citizens living in poverty, the jobs available are temporary, don’t pay decent wages, and offer no hope of permanent employment or a way to a better life.

About five years ago, Daniel Kerr and Chris Dole, doctoral candidates at Case Western Reserve University, published a study of the day labor industry in Cleveland, confirming what day laborers have long protested— that they often make less than the minimum wage after they pay for transportation, needed safety equipment, and commercial job agency and check-cashing fees. In addition, in the day labor industry, there is a lot of “stand around” time as people wait for hours to find out if they even have a job for that day. When they are lucky enough to get work, it is generally a dead-end position with little or no prospect for eventual full-time employment.

One of the most surprising findings of the study was that most of the people living in Cleveland’s homeless shelters actually worked, using temporary day labor agencies. Indeed, the researchers were told that the way the temporary day labor industry operated was a large part of the reason for workers’ homelessness. After the charges and the fees and the time spent waiting instead of working, there was not enough left over to find anything other than a homeless shelter.

Acting on the research, social justice groups and community foundations created the hall in September 2004, after a 2003 pilot project.

As a nonprofit temporary employment service that pays day laborers a living wage, in its first year the Hall managed some $1.2 million in contracts. According to Sarah Garver, the Hall’s Executive Director, the majority of workers made $9.66 an hour last year, Cleveland’s ‘living wage,’ and no one was paid less than $8.00 per hour. Garver expects to double the agency’s contracts in its second year.

The goal of the Hall, says Garver, “is to provide jobs, increase workers’ take-home pay and help eliminate barriers that prevent them from getting permanent jobs. Permanent employment is the ultimate goal. We hope to place 100 workers each year in permanent full-time jobs.”

Unlike the day labor industry, the Community Hiring Hall does not deduct hiring fees from workers’ paychecks nor require that workers pay for transportation, safety equipment and check-cashing. On the contrary, the Hall provides bus tickets to workers until they get their first paycheck and offers needed safety equipment free of charge. The hall has made arrangements with nearby businesses to cash workers’ checks. It is hoped that free bank accounts will be available soon. The Hall uses any excess income to provide higher wages and benefits. Foundation funding allows the Hall the latitude to do this and provide other services as well.

Summing up the impact of the Hiring Hall, Garver notes that “Not only does the worker and the contracting employer benefit from the services offered at the Community Hiring Hall, but the community benefits as well. The money workers earn will be spent here, in the community, helping to boost our overall economy while reducing dependency on government programs.”

The opening of the Hall was the culmination of support from a number of Cleveland social justice groups including the Lutheran Metropolitan Ministry, Goodwill Industries, Local 10 of the Hotel and Restaurant Employees Union, the Cleveland AFL-CIO, the United Labor Agency, the Catholic Commission of Human Development, Jobs with Justice and Local 3 of the Service Employees International Union.

Getting the idea from the drawing board to reality was made possible with financial support from several Cleveland area foundations including The Reuter Foundation, the George Gund Foundation, the Eva L. & Joseph M. Bruening Foundation, the Nord Family Foundation, the Cleveland Foundation and the United Black Fund of Greater Cleveland.
North Community Construction Co-op Helps to Build New Lives

Second chances are sometimes hard to come by, but the North Community Construction Co-op in Cleveland is making it a little easier.

After struggling with personal problems, including homelessness, substance abuse and poverty, as well as disillusionment with temporary employment agencies, George Bowers and David Crockett decided to take matters into their own hands. With help from North Presbyterian Church, an inner-city congregation with a history of social work, they formed the North Community Construction Co-op.

“The availability of jobs wasn’t there,” says Crockett, “Dealing with part-time and temporary jobs was not enough to keep me above the poverty line. I felt like I was being exploited by employment agencies.”

“We were homeless and were looking for something to help lift ourselves out of poverty and hopelessness,” agrees Bowers, “It’s rough out here.” A third member of the co-op, Adrian Guerry, joined later, but has had the same experience as Bowers and Crockett. “I’ve been working for temp agencies since 1994,” he says, “but now I’m learning skills to be successful.”

The co-op grew out of a bible study group in the spring of 2004. In the group’s discussions, it was apparent that the existing safety net was not providing the economic and psychological support needed to help the men rebuild their lives. The idea for a cooperative came up. With the help of the OEOC, the co-op was able to secure small grants from the Self-Development of People fund of the Presbytery of the Western Reserve to purchase tools and supplies, and from the Ohio Cooperative Development Center at Ohio State University to pay for legal work, promotional materials and other items. The OEOC assisted with incorporation papers, a business plan, and the design and printing of a flyer and business cards.

An initial project for the co-op was remodeling portions of North Presbyterian, including the church entrance and kitchen. The work has been a good marketing tool for the co-op. “We’re using this as our model,” says Bowers.

“People take a look at what we’re doing here and they’re impressed,” says Crockett, “because with an old building like this, even the easy jobs become difficult.”

An ongoing problem for the co-op is purchasing bonding insurance needed to obtain outside work. In the meantime work on the Church continues. But the worker-owners of North Community Construction Co-op are taking new challenges in stride. “We’re taking baby steps, but we’re moving forward,” says Bowers. “You’ve got to crawl before you can walk,” concurs Crockett. “Since I’ve been here, with the help of God and these guys’ guidance, I’m hoping to become a better man,” says Guerry.

Leahy Secures $500,000 To Boost Vermont’s Employee-Owned Businesses

Sen. Patrick Leahy announced on December 1 that he has secured $500,000 in funding through the Small Business Administration to help the Vermont Employee Ownership Center expand its employee ownership efforts throughout Vermont. The funds will be used for additional outreach and educational work, to give technical help to business owners and employee groups, and to develop new funding streams for the future.

“Employee ownership preserves local ownership of our businesses,” said Leahy, a senior member of the Senate Appropriations Committee. “Instead of closing down or selling to a competitor, small business owners looking for a good exit strategy can sell the business to their employees. Employee ownership keeps businesses and jobs in our communities.”

Leahy noted that employee ownership, when paired with employee participation, can lead to greater productivity and higher quality, making companies better able to compete in global markets. Employee buyouts of plants slated for closure can preserve jobs that would otherwise be lost. Employee ownership, like home ownership, offers a way for ordinary people to build wealth. In addition, employee-owned businesses tend to pay higher wages and provide better benefits.

The Vermont Employee Ownership Center (VEOC) is a statewide non-profit organization founded in 2001 to provide information and resources to owners interested in selling their business to their employees, employee groups interested in purchasing a business, and entrepreneurs who wish to start a company with broadly shared ownership. To date VEOC has given direct assistance to 56 Vermont businesses, employing a total of 1,669 Vermonters. Nearly 40 Vermont-based companies are at least partially employee-owned, including Gardener’s Supply Company, King Arthur Flour, Merchant’s Bank, Carris Reels, Chroma Technology, Hill Associates, Hallam Associates, The Trust Company of Vermont, and Homestead Design. For more information contact Don Jamison, Executive Director of VEOC, 802-861-6611 or visit VEOC’s website at http://www.veoc.org.
Another Paper Mill Employee Buyout?

Employee Group hopes to turn a new page at Chillicothe Paper Mill

Ohio’s first state capital, Chillicothe, a town of 22,000 located in the south central part of the state, has been home to a major paper mill for more than a hundred years. Sons have followed fathers and grandfathers working at the mill, which currently employs about 1700 people. It is a major part of the local economy of Chillicothe and Ross County.

In May 2005, MeadWestvaco Corporation, formed in a 2002 merger of Mead and Westvaco paper companies, sold its paper mill operations for about $2.3 billion to New York private equity firm Cerberus Capital Management. The new company, NewPage Corporation, now operates five pulp and paper mills and is the largest maker of glossy paper in North America.

The Chillicothe mill’s primary product, however, is carbonless paper, a declining market that is commonly used for business forms. A month after the deal closed, the new company announced it was looking at three options for the Chillicothe mill. One possibility was to sell to a strategic buyer; another was to restructure the operation under NewPage; and the third was to sell it to the employees and local management.

The employees decided to explore purchase of the mill through an Employee Stock Ownership Plan. But first, they needed to find out more. They contacted the Ohio Employee Ownership Center at Kent State University for information and assistance, formed an Employee Buyout Committee headed by Mark Dixon (representing the hourly workforce) and Steve Brown (representing the salaried folks), and held 3 days of informational meetings to explain what an ESOP is, how it works and the steps needed to buy the facility.

Following PowerPoint presentations and lots of questions and answers, the decision was made to take the next step and apply for a prefeasibility study grant (a program the OEOC administers for the Ohio Department of Job and Family Services) to help them determine whether it made sense to pursue the buyout. The Buyout Committee brought in SES Advisors from Philadelphia, PA. The study concluded that an ESOP purchase had a reasonable chance of success.

While the study was being done, the Buyout Committee and the Management Leadership Team set about planning. Subcommittees were set up to deal with communication issues, ESOP plan design, and financing. The Communications subcommittee published a newsletter roughly every other week, letting folks know what was going on; the Plan Design subcommittee tackled issues involving participation, eligibility, vesting, allocation and distribution; the Political Strategy subcommittee began exploring financing and government loan guarantees.

At the same time, local management and leaders of the unions that represent most of the mill’s employees, the United Steelworkers (USW) began discussions on new collective bargaining agreements to better reflect the realities of an employee-owned operation.

At this point, activity with the employee buyout committee has slowed. They are at the point where they need a letter of intent and “period of exclusivity” in order to proceed. “The employee buyout is still an option on the table and we will be ready to take the next steps if the time comes,” said Mark Dixon, Chair of the Ohio Operations ESOP Committee.

Reader, stay tuned and check the next issue of Owners at Work.
Business Succession Planning Program Expanding into Akron Area

After more than 10 successful years in the Cleveland area, the OEOC is partnering with the Greater Akron Chamber to roll out an Akron-area Business Owner Succession Planning Program this spring. The Cleveland program is co-sponsored by the Greater Cleveland Partnership’s Council on Smaller Enterprises (COSE). The program is designed to provide owners and managers of small-to-medium-sized private and closely-held businesses with the information they need to start planning for succession, thereby anchoring businesses and jobs in their communities. Each session is taught by recognized local and national professionals in the field of succession planning. Chris Cooper, the program’s coordinator, is excited about the growth of the program. “Too many otherwise healthy small businesses don’t make it to the 2nd and 3rd generation due to incomplete or nonexistent succession planning. It was only natural that we would extend the geographic area of the program. We are very excited that the Greater Akron Chamber is joining with COSE in co-sponsoring these programs. With these two first-class organizations on board, we expect good things to happen,” says Cooper.

Business Owner Succession Planning Program
Schedule of Seminars

Cleveland Program

Tuesday March 14th—Introduction to Succession Planning—Jim Aussem, Weston Hurd
Tuesday March 28th—The Importance of Legal Documents in Succession Planning—Carl Grassi, McDonald Hopkins
Tuesday April 11th—Selling to Your Employees: Management Buyouts, ESOPs, and Co-ops—Michael Pappas, Barnes Wendling
Tuesday April 25th—Cash-Flow Planning as a Component of Succession Planning—Neil Waxman, Capital Advisors
Tuesday May 9th—How Much is my Company Worth? The ABC’s of Valuation—David Howell, Duff & Phelps
Tuesday May 23rd—The Role of Trusts in Succession and Estate Plans—Pete Chudyk, RSM McGladrey

Cost is $40 (COSE members $30) per seminar or all six for $140 (COSE members $120).

Seminars are held at Trinity Commons, 2230 Euclid Avenue, Cleveland, Ohio 44115 from 8:00 a.m. to 10:00 a.m. Parking is free and refreshments are included.

Akron Program

Thursday March 16th—Introduction to Succession Planning—David Gaino, Moore Stephens Apple
Thursday March 30th—The ABC’s of Valuation—Ray Dunkle, Brockman Coats
Thursday April 13th—Succession/Estate Planning Techniques—Michael Wear, Stark & Knoll Co.
Thursday April 27th—Selling to Your Employees: Management Buyouts, Employee Stock Ownership Plans (ESOPs), and Co-ops—Ronald C. Stansbury, Calfee, Halter & Griswold

Cost is $40 (Chamber members $30) per seminar or all four for $110 (Chamber members $95).

Seminars are held at Greystone Hall, 103 S. High St., Akron OH 44308-1410, from 8:00 a.m. to 10:00 a.m. Parking is free and refreshments are included.

For more information on these seminars, contact:
Bill McIntyre or Chris Cooper, Business Owner Succession Planning Program, Ohio Employee Ownership Center
330-672-3028 oeoc@kent.edu www.kent.edu/oeoc/spp

Books Briefly Noted


How do we invest our pension funds to help Ohio workers keep jobs with good wages and benefits until they start drawing their pensions?

Today pension fund savings are the primary source of new investment capital. American pension funds hold more than $7 trillion in trust for their future retirees. Unfortunately most of these funds are invested on Wall Street premises, chasing short-term rates of return, often in companies that are “downsizing,” “outsourcing,” and “offshoring” their would-be future pensioners’ jobs.

This little book by Swedish journalist Per Åhlström is the best presentation to date of a coherent investment philosophy for employee pension capital. Åhlström balances the needs for good pensions tomorrow and good jobs today. Written for Euresa, the European association of union-linked cooperative insurance companies, this volume presents an investment model based on what Åhlström calls “the good circle of social security capital.”

The “good circle” offers five requirements for pension fund investments: the financial requirement, the employment requirement, the influence requirement, the environmental requirement, and the social requirement. This is double bottom-line investment where the second bottom line—growing good jobs, improving the environment, and insuring good working conditions—really makes a difference for working people in industrial countries and developing countries alike.

Åhlström’s point is that employee pension capital is the property of employees, not the property of fund managers. It needs to be invested to improve the lives of employees today as well as their pensions tomorrow.

This short book deserve wide circulation among everyone who cares how their pension money is invested. It is written for a mass audience, but it won’t get one in the US unless an american publisher steps up to the plate. A “further reading” section and an index would make it more useful.

We need to have a discussion of pension fund investment in employee-owned companies in Ohio—including putting pension money back into building the employee-owned sector. This book should be required reading for that discussion.
This issue ofOwners At Workis sponsored by

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